COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2006 THROUGH APRIL 30, 2007	)))))	CASE NO. 2007-00276

O R D E R

This case was established to review and evaluate the operation of the fuel adjustment clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the six months ended April 30, 2007. On January 18, 2008, the Commission issued an Interim Order in this proceeding that approved the charges and credits billed by Kentucky Power through its FAC for the period under review, subject to any adjustments arising from the energy cost review proceeding of Kentucky Power's affiliate, Appalachian Power Company ("APCO") before the West Virginia Public Service Commission ("West Virginia Commission"). This case remained open pending completion of the West Virginia Commission's review.

With this Order, the Commission accepts Kentucky Power's FAC-related adjustments which derive from metering discrepancies of power transactions between the Kentucky Power and APCO systems. The result is an increase of $129,003 in the amounts Kentucky Power will be authorized to recover from customers through its FAC.[1]

BACKGROUND

In Case No. 2006-00507,[2] Kentucky Power first disclosed that metering discrepancies were discovered at its Leach to South Neal tie line with APCO and its Bellefonte tie line with another affiliate, Ohio Power Company ("Ohio Power").

At its request, Case No. 2006-00507 was continued generally to allow Kentucky Power sufficient time to evaluate the impact of the metering problem and an informal conference was scheduled to allow Kentucky Power to provide the results of its evaluation.

At the subsequent September 19, 2007 informal conference Kentucky Power distributed copies of an excerpt from the July 6, 1951 Interconnection Agreement Between Appalachian Power Company, Kentucky Power, Ohio Power Company, Indiana & Michigan Electric Company and American Electric Power Service Corporation As Agent ("Interconnection Agreement"), as amended, which governs transactions between it and its affiliates. Kentucky Power stated that the Interconnection Agreement, as approved by the Federal Energy Regulatory Commission, prescribes the

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[1] There will be an offsetting adjustment of $195,078, which will be addressed in Case No. 2007-00381, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Periods Ending June 30, 2006 and December 31, 2006, for the Two-Year Billing Period Ending June 30, 2007.

[2] Case No. 2006-00507, An Examination of the Application of the Fuel Adjustment Clause of American Electric Power Company from November 1, 2004 to October 31, 2006, final Order dated December 19, 2007.

methodology for correcting errors resulting from wholesale transaction metering inaccuracies. Article 8.6 of the Interconnection Agreement states in part that "[i]f on any test of metering equipment, an inaccuracy shall be disclosed exceeding two percent, the account between the Members for service theretofore delivered shall be adjusted to correct for the inaccuracy disclosed over the shorter of the following two periods: (1) for the thirty-day period immediately preceding the day of the test or (2) for the period that such inaccuracy may be determined to have existed." Staff requested that Kentucky Power provide in writing, to be filed in both Case No. 2006-00507 and Case No. 2007-00276, a detailed description of the problem discussed at the informal conference, the results of its investigation of the problem, and its recommendations for correcting the problem.

On October 10, 2007, Kentucky Power filed its response, in which it described the metering inaccuracies and the remedial measures it had taken as well as additional steps it planned to take in the future to address the problem. The metering inaccuracies at the APCO interconnection occurred as a result of a programming error in the Consolidated Energy Accounting System ("CEAS") and the translation between the current transformer ("CT") and the meter.[3] The CEAS and the CT are part of the metering equipment used by Kentucky Power in retrieving energy use information.

[3] A re-dispatch of the system, which was performed to ascertain the impact of the metering discrepancies, resulted in shifting most of the impact of the Ohio Power error to APCO, so that the adjustment between Kentucky Power and APCO captures nearly the full impact of the Ohio Power error. Due to electric industry restructuring in Ohio (which deregulated generation), there are no means to adjust for the metering discrepancies in the direct transactions between Kentucky Power and Ohio Power.

Kentucky Power explained that, since the discrepancies were discovered in June 2007, the adjustment it proposed was for May 2007, as required by Section 8.6 of the Interconnection Agreement. Kentucky Power's proposed adjustment affects its FAC calculation, its System Sales Clause ("SSC") calculation, and its environmental surcharge calculation. The adjustment results in an increase in fuel costs of $9,965, a decrease of $119,038 in the level of system sales profits credited to its customers, and a decrease in the environmental surcharge revenue requirement of $195,078, for an overall net effect of $66,075 in favor of Kentucky Power's customers.

Kentucky Power stated that the West Virginia Commission was considering whether APCO should recognize, through its energy cost recovery mechanism, the impact of the metering discrepancies for the months of 2007 that fall within this proceeding's review period. Since the time period of the adjustment, May 2007, is beyond the October 31, 2006 ending date for the period under review in Case No. 2006-00507, Kentucky Power requested that the Commission issue an Order closing that case. It also suggested that any further adjustments resulting from developments in APCO's West Virginia case be considered in its next two-year FAC review. In its December 19, 2007 Order in Case No. 2006-00507, the Commission found that adjustments from the metering inaccuracies would "be considered in a future FAC proceeding."

DISCUSSION

The APCO proceeding in West Virginia has been concluded. On June 26, 2008, the West Virginia Commission entered an Order[4] approving a Joint Stipulation and Agreement for Settlement between APCO and other parties with respect to APCO's proposed Expanded Net Energy Costs ("ENEC") charge beginning July 1, 2008. Included in the approved ENEC charge is the one-month adjustment for transactions between APCO and Kentucky Power which resolves the matter of the metering discrepancy. With its filing of the APCO decision, Kentucky Power requested that it be permitted to modify its FAC and environmental surcharge filings in the month immediately following the Commission's Order in accordance with its October 10, 2007 filing. Kentucky Power also requests that this docket be closed.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky Power's proposed adjustment to the fuel costs and system sales profits billed together through its FAC, after the two factors (FAC and SSC) are netted together, is reasonable and should be approved.

2. Kentucky Power should be authorized to apply its proposed adjustment to its fuel costs and system sales profits in the first FAC filing it makes with the Commission subsequent to the issuance of this Order.

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[4] Case No. 08-278-E-GI, General Investigation to Determine Reasonable Rates for Appalachian Power Company and Wheeling Power Company on and after July 1, 2008, West Virginia Public Service Commission, Order dated June 26, 2008.

3. Kentucky Power's request to decrease its environmental surcharge revenue requirement by $195,078 is outside the scope of this FAC proceeding and will be addressed in Case No. 2007-00381.

4. Kentucky Power's adjustment to its FAC should be made in a month concurrent with any environmental surcharge adjustment permitted by the Commission in Case No. 2007-00381 as a result of the metering discrepancies discussed herein.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's proposed adjustment, which increases fuel costs by $9,965 and decreases system sales profits credited to customers by $119,038, is approved.

2. Kentucky Power is authorized to apply the adjustment to its first FAC filing subsequent to the issuance of this Order.

3. Kentucky Power shall make the FAC filing adjustment authorized herein concurrent with any related environmental surcharge adjustment permitted in Case No. 2007-00381.

4. This case is hereby closed and shall be removed from the Commission's docket.

Done at Frankfort, Kentucky, this 19th day of August, 2008.

By the Commission

Vice Chairman Gardner Abstains.

ATTEST:

Stephanie Stumbo

Executive Director